Cooperative Extension Service

WEEKLY OUTLOOK

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HOG PRODUCERS TO SEE NICE PROFITS IN THEIR FUTURE

The next 12 months may unfold as the most profitable period for hog producers since 1990. The return to profitability is expected from a combination of strong hog prices, supported by reduced pork production, and sharply lower corn prices. Reducing cash corn prices by about $1.50 per bushel would lower costs of production by about $8 per hundredweight. Current estimated costs are at a record high $55, with costs this fall dropping to around $47 for average cost farrow-to-finish operations. Hog producers, however, cannot count their financial rewards just yet, as weather this summer and early fall can still have an enormous impact on feed prices.

The USDA's June *Hogs and Pigs* report revised downward the size of the December 1995 and March 1996 breeding herds. Correspondingly, it lowered the number of sows farrowing and the size of the winter and spring pig crops. Most of these figures were lower by 2 to 4 percent, but the spring farrowings were reduced by 6 percent.

The June 1 breeding herd was reported as down 4.8 percent from year-ago levels, while the market herd was down 3.4 percent. The inventory of market animals weighing over 180 pounds was reported as down only 3 percent, yet the June slaughter was down about 8 percent. The USDA may still be over estimating the number of hogs.

The spring farrowings were reported as down 7.7 percent from farrowings of last year, with the pig crop for the quarter down 6 percent. This seems to be in line with the reduction in slaughter this summer. Farrowing intentions for this summer are down nearly 5 percent, but are off only 1 percent for the fall. The fall intentions are likely too high, as producers are not likely to expand herds until a reasonable corn crop can be assured. If more gilts and sows are bred this fall, farrowings will not increase until the winter and spring of 1997.

Major cuts in the breeding herd came from the heart of the corn belt. Nebraska's breeding herd was down 12 percent from year-ago levels, while Iowa's herd was down 13 percent, Illinois down 15 percent, and Indiana down 13 percent. Add to these reductions, the upper Midwest states of South Dakota (down 22 percent), Minnesota (down 5 percent), and Wisconsin (down 15 percent), and there has been a massive reduction of the herd from the heart of hog country. Combined, these 7 states had a reduction of 520,000 breeding animals over the last year.

Pork production is expected to be down about 4 percent this summer, 5 percent this fall, and about 3 percent this winter. If farrowings increase this fall, as USDA suggests, pork supplies could increase by the spring of 1997. However, it is more likely that farrowings will not increase this fall, and spring 1997 supplies could be lower also.

Prices for this summer are expected to average about $56 per hundredweight. If so, hog prices will return to the high $50s in July and August, with prices in the mid-$50s in September. Fall terminal prices are expected to average in the low to mid $50s. Prices could dip to near $50s in October, but be back to the mid-$50s in December. Prices in the first half of 1997 are expected to be in the lower $50s. Next summer's highs will likely come in June, as they did this year, and may be near the $60 level for a short period.

If the 1996 feed grain crop does develop normally, expansion of the breeding herd could become robust by this winter, given the positive price outlook. This expansion, however, will not increase pork production until the last half of 1997. Large corn acreage and normal yields in 1997, would continue to push hog costs lower into the 1997-1998 crop marketing year. The outlook for profits in late 1997 and 1998 would depend on the magnitude of the expansion of pork production.

Feed prices are as critical as hog prices to profits in the coming year. Producers will want to consider current new-crop feed price levels to at least start locking in feed costs. New-crop prices may drop to the $3.10 to $3.20 range at harvest, but this is far from guaranteed. Some protection at current levels will likely assure profitable feeding. Alternatively, a period of hot, dry weather in August or an early frost, could send corn prices back to levels which would mostly offset the current profit potential. Also, with an assured corn price for the 1996-1997 crop marketing year, producers might consider breeding lots of gilts as quickly as possible. Wheat feeding should also be considered this summer.

Feeder pig prices should recover into the mid-$40 per head range this fall. Retail pork prices may reach record high levels in the last half of 1996 and early 1997, at about $2.25 per pound.

Chris Hurt

Issued by Chris Hurt
Extension Economist
Purdue University

ACES Newsletter Service
University of Illinois
at Urbana-Champaign
69 Mumford Hall
1301 West Gregory Drive
Urbana IL 61801

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